

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Lexington Township	County Sanilac
Fiscal Year End 06/30/2007	Opinion Date 10/15/2007	Date Audit Report Submitted to State 10/25/2007	

We affirm that:

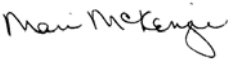
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- Check each applicable box below.** (See instructions for further detail.)
- | | YES | NO | |
|-----|-------------------------------------|--------------------------|---|
| 1. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| 3. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| 7. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements. |
| 9. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.		Telephone Number (989) 635-7518	
Street Address 3149 Main Street, Suite #4; P.O. Box 218		City Marlette	State MI
Zip 48453			
Authorizing CPA Signature 	Printed Name Mari McKenzie	License Number 1101010725	

Lexington Township
Annual Financial Statements
and
Auditors' Report
June 30, 2007

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Lexington Township
List of Elected and Appointed Officials
June 30, 2007

Township Board

Chad Partaka	Supervisor
Carolyn F. Misiak	Clerk
Davianna McAllister	Treasurer
William Watson	Trustee
John O'Hair	Trustee

Independent Auditors' Report

To the Township Board
Lexington Township
Sanilac County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lexington Township as of and for the year ended June 30, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lexington Township as of June 30, 2007 and the respective changes in financial position, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information identified in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Lexington Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lexington Township's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

October 15, 2007
Marlette, Michigan

Lexington Township
Statement of Net Assets
June 30, 2007

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
Assets	
Cash and cash equivalents	\$ 175,350
Investments	217,488
Receivables	
Customers	9,085
Special assessments	134,452
Due from other units of government	5,595
Capital assets, net	<u>61,468</u>
Total assets	<u>603,438</u>
Liabilities	
Accounts payable	4,344
Accrued and other liabilities	3,135
Noncurrent liabilities	
Due within one year	17,300
Due in more than one year	<u>239,980</u>
Total liabilities	<u>264,759</u>
Net Assets	
Invested in capital assets, net of related debt	30,268
Restricted for:	
Debt service	37,378
Unrestricted	<u>271,033</u>
Total net assets	<u>\$ 338,679</u>

See Accompanying Notes to Financial Statements

Lexington Township
Statement of Activities
For the Year Ended June 30, 2007

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
				Net (Expense) Revenue and
				Changes in Net Assets
Functions/Programs				
Primary government				
Governmental activities				
General government	\$ 198,941	\$ 10,483	\$ -	\$ 11,300
				\$ (177,158)
Public safety	41,264	14,490	880	-
				(25,894)
Public works	29,029	39,935	-	-
				10,906
Health and welfare	19,780	7,890	-	-
				(11,890)
Community and economic development	15,394	4,133	-	-
				(11,261)
Interest on long-term debt	13,259	-	-	-
				(13,259)
Total governmental activities	317,667	76,931	880	11,300
				(228,556)
General revenues				
Property taxes				118,350
State shared revenue				177,160
Unrestricted investment earnings				14,072
Miscellaneous				837
Total general revenues				310,419
Change in net assets				81,863
Net assets - beginning of year				256,816
Net assets - end of year				\$ 338,679

See Accompanying Notes to Financial Statements

Lexington Township
Governmental Funds
Balance Sheet
June 30, 2007

	General	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 175,325	\$ -	\$ 25	\$ 175,350
Investments	81,176	136,312	-	217,488
Receivables				
Customers	9,085	-	-	9,085
Special assessments	24,127	110,325	-	134,452
Due from other units of government	-	5,595	-	5,595
Due from other funds	14,506	11,226	-	25,732
	<u>304,219</u>	<u>263,458</u>	<u>25</u>	<u>567,702</u>
Total assets	<u>\$ 304,219</u>	<u>\$ 263,458</u>	<u>\$ 25</u>	<u>\$ 567,702</u>
Liabilities				
Accounts payable	\$ 4,344	\$ -	\$ -	\$ 4,344
Accrued and other liabilities	1,373	-	-	1,373
Due to other funds	11,226	14,506	-	25,732
Deferred revenue	24,127	110,325	-	134,452
	<u>41,070</u>	<u>124,831</u>	<u>-</u>	<u>165,901</u>
Total liabilities	<u>41,070</u>	<u>124,831</u>	<u>-</u>	<u>165,901</u>
Fund Balances				
Reserved for:				
Debt service	-	138,627	-	138,627
Unreserved, reported in:				
General fund	263,149	-	-	263,149
Special revenue funds	-	-	25	25
	<u>263,149</u>	<u>138,627</u>	<u>25</u>	<u>401,801</u>
Total fund balances	<u>263,149</u>	<u>138,627</u>	<u>25</u>	<u>401,801</u>
	<u>\$ 304,219</u>	<u>\$ 263,458</u>	<u>\$ 25</u>	<u>\$ 567,702</u>
Total liabilities and fund balances	<u>\$ 304,219</u>	<u>\$ 263,458</u>	<u>\$ 25</u>	<u>\$ 567,702</u>

See Accompanying Notes to Financial Statements

Lexington Township
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
June 30, 2007

Total fund balances for governmental funds	\$ 401,801
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	61,468
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	134,452
Certain liabilities are not due and payable in the current period and are not reported in the funds. Accrued interest	(1,762)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	<u>(257,280)</u>
Net assets of governmental activities	<u><u>\$ 338,679</u></u>

Lexington Township
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2007

	General	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 159,742	\$ -	\$ -	\$ 159,742
State revenue sharing	177,160	-	-	177,160
Other state grants	11,300	-	880	12,180
Charges for services	40,409	6,601	-	47,010
Interest income	6,067	14,718	1	20,786
Other revenue	2,385	6,315	-	8,700
Total revenues	<u>397,063</u>	<u>27,634</u>	<u>881</u>	<u>425,578</u>
Expenditures				
Current				
General government	206,179	-	-	206,179
Public safety	40,476	-	-	40,476
Public works	28,483	-	-	28,483
Health and Welfare	19,416	-	-	19,416
Community and economic development	15,092	-	-	15,092
Debt service				
Principal retirement	1,600	15,700	-	17,300
Interest and fiscal charges	1,680	11,696	-	13,376
Total expenditures	<u>312,926</u>	<u>27,396</u>	<u>-</u>	<u>340,322</u>
Excess (deficiency) of revenues over expenditures	<u>84,137</u>	<u>238</u>	<u>881</u>	<u>85,256</u>
Other financing sources (uses)				
Transfers in	880	-	-	880
Transfers out	-	-	(880)	(880)
Total other financing sources and uses	<u>880</u>	<u>-</u>	<u>(880)</u>	<u>-</u>
Net change in fund balance	<u>85,017</u>	<u>238</u>	<u>1</u>	<u>85,256</u>
Fund balance - beginning of year	<u>178,132</u>	<u>138,389</u>	<u>24</u>	<u>316,545</u>
Fund balance - end of year	<u>\$ 263,149</u>	<u>\$ 138,627</u>	<u>\$ 25</u>	<u>\$ 401,801</u>

See Accompanying Notes to Financial Statements

Lexington Township
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2007

Net change in fund balances - Total governmental funds	\$ 85,256
Total change in net assets reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(6,062)
Capital outlay	11,300
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Property taxes	(26,048)
Expenses are recorded when incurred in the statement of activities	
Accrued interest	117
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.	
Repayments of long-term debt	<u>17,300</u>
Change in net assets of governmental activities	<u>\$ 81,863</u>

Lexington Township
Fiduciary Funds
Statement of Fiduciary Assets and Liabilities
June 30, 2007

	Agency Funds
Assets	
Cash and cash equivalents	\$ 5,473
Liabilities	
Due to other units of government	\$ 5,473

See Accompanying Notes to Financial Statements

Lexington Township
Notes to Financial Statements
June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Lexington Township is governed by an elected five-member Board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. There are no component units.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. *Government activities* are normally supported by taxes and intergovernmental revenues. All of the Township's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, special assessments, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It

Lexington Township

Notes to Financial Statements

June 30, 2007

accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs.

Additionally, the government reports the following:

The nonmajor special revenue funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements.

Trust and Agency Fund and Current Tax Collection Fund accounts for property tax and other deposits collected on behalf of other units and individuals.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Assets, liabilities, and net assets or equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a

maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2006 taxable valuation of the government totaled \$ 142,393,947, on which ad valorem taxes consisted of 0.651 mills for operating purposes. This resulted in \$ 88,326 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 3,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line

Lexington Township
Notes to Financial Statements
June 30, 2007

method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Office equipment computer equipment	5 to 7 years
Computer equipment	3 to 7 years

Long-term obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data

Comparative data is not included in the government's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to June 1, the Township Supervisor submits to the Lexington Township a proposed operating budget for the fiscal year commencing the following July 1. Public hearings are obtained to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to July 1.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The Township Clerk is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Lexington Township.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Excess of expenditures over appropriations

The Township expenditures in excess of budget are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Over</u>
General Government	\$ 205,826	\$ 206,179	\$ 353
Public safety	<u>36,600</u>	<u>40,476</u>	<u>3,876</u>
Total	<u>\$ 242,426</u>	<u>\$ 246,655</u>	<u>\$ 4,229</u>

Lexington Township
Notes to Financial Statements
June 30, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end the government's deposits and investments were reported in the basic financial statements in the following categories:

	Cash and Cash Equivalents	Investments
Governmental activities	\$ 175,350	\$ 217,488
Fiduciary funds	5,473	-
Total	<u>\$ 180,823</u>	<u>\$ 217,488</u>

The breakdown between deposits and investments is as follows:

	Primary Government	Fiduciary Funds
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 175,350	\$ 5,473
Investments in securities, mutual funds and similar vehicles	217,488	-
	<u>\$ 392,838</u>	<u>\$ 5,473</u>

As of year end, the government had the following investments:

Investment	Fair Value	Maturities	Rating	Rating Organization
CADRE Liquid Asset Fund	\$ 217,488	6 Mos. Avg	AAA	Standard and Poor's

Interest rate risk – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates

Credit risk – State statutes and the government's investment policy authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan

associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Concentration of credit risk – The government has no policy that would limit the amount that may be issued in any one issuer.

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of year end, \$ 49,316 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Consistent with the government's investment policy, the government's investments are held by a counterparty and are not insured.

NOTE 4 - RECEIVABLES AND DEFERRED REVENUE

The only receivables not expected to be collected within one year are as follows:

	Due After One Year
Primary government	
Special assessments	<u>\$ 108,707</u>

Governmental funds report deferred revenue in connection with

Lexington Township

Notes to Financial Statements

June 30, 2007

receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Primary government	
Special assessments	\$ <u>134,452</u>

NOTE 5 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets being depreciated				
Land improvements	\$ 4,420	\$ -	\$ -	\$ 4,420
Buildings, additions and improvements	87,977	-	-	87,977
Machinery and equipment	29,883	11,300	-	41,183
Total capital assets being depreciated	<u>122,280</u>	<u>11,300</u>	<u>-</u>	<u>133,580</u>
Less accumulated depreciation for				
Land improvements	1,547	222	-	1,769
Buildings, additions and improvements	40,048	1,759	-	41,807
Machinery and equipment	24,455	4,081	-	28,536
Total accumulated depreciation	<u>66,050</u>	<u>6,062</u>	<u>-</u>	<u>72,112</u>
Net capital assets being depreciated	<u>56,230</u>	<u>5,238</u>	<u>-</u>	<u>61,468</u>
Governmental activities capital assets, net	<u>\$ 56,230</u>	<u>\$ 5,238</u>	<u>\$ -</u>	<u>\$ 61,468</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities

General government	\$ 4,062
Public safety	788
Public works	546
Health and welfare	364
Community and economic development	<u>302</u>
Total governmental activities	<u>\$ 6,062</u>

NOTE 6 - INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due from/to other funds		
General Fund	Debt Service Fund	\$ 14,506
Debt Service Fund	General Fund	<u>11,226</u>
		<u>\$ 25,732</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

The details for interfund transfers are as follows:

Funds Transferred From	Funds Transferred To	Amount
Liquor Law Enforcement	General Fund	\$ 880

Transfers are used to move revenues that finance various programs that the government must account for in separate funds in accordance with budgetary authorizations in order to cover the expense incurred by the general fund for the program.

Lexington Township
Notes to Financial Statements
June 30, 2007

NOTE 7 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Lease agreements are also general obligations of the government.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
Bonds and notes payable									
General obligation bonds									
Water	\$ 323,420	05/01/2018	4.05%	\$15,700-\$23,550	\$ 241,780	\$ -	\$ 15,700	\$ 226,080	\$ 15,700
Installment purchase agreements									
Long-term lease payable	57,000	06/01/2020	5.00%	\$1,600-\$2,000	32,800	-	1,600	31,200	1,600
Total governmental activities					<u>\$ 274,580</u>	<u>\$ -</u>	<u>\$ 17,300</u>	<u>\$ 257,280</u>	<u>\$ 17,300</u>

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending December 31,	Governmental Activities	
	Principal	Interest
2008	17,300	12,456
2009	19,070	11,660
2010	20,840	10,784
2011	20,840	9,816
2012	20,410	7,181
2013-2017	123,470	58,074
2018-2020	35,350	3,849
	<u>\$ 257,280</u>	<u>\$ 113,820</u>

Lexington Township
Notes to Financial Statements
June 30, 2007

The cost and accumulated depreciation as of June 30, 2007 related to the building under long-term lease is as follows:

Cost	\$ 64,064
Less: accumulated depreciation	<u>(32,031)</u>
Net	<u>\$ 32,033</u>

The present value of future minimum lease payments under capital leases as of June 30, 2007 is as follows:

Total lease payments	\$ 43,120
Less: amounts representing interest	<u>(11,920)</u>
Present value of minimum lease payments	<u>\$ 31,200</u>

NOTE 8 - JOINT VENTURE

The Village of Lexington Building Authority was created in 1979 to facilitate the financing, construction and operation of a municipal building in the Village for the use of both the Village and Township of Lexington. General obligation bonds in the amount of \$285,000 with interest at five percent (5%) per annum were issued under the provision of Act No. 31, Public Acts of Michigan, 1948 as amended. Financing of the Authority, to include debt retirement and operational expenses, will consist of the Village contributing eighty percent (80%) and the Township twenty percent (20%). Upon the retirement of the construction bonds which financed the facility, or at the time title is transferred to the Village, the Village will convey a tenancy in common to the Township reflecting a twenty percent (20%) interest to the Township.

The transactions of the Village of Lexington Building Authority are subject to a separate audit and are not included in this report.

Following is a summary of financial data pertaining to the Village of Lexington Building Authority as of and for the year ended June 30, 2007.

	<u>Government-wide</u>
Assets	\$ 231,168
Liabilities	<u>156,000</u>
Net assets	<u>\$ 75,168</u>
Revenues and transfers	\$ 47,274
Expenditures and transfers	<u>39,394</u>
Increase in net assets	<u>\$ 7,880</u>

NOTE 9 - RISK MANAGEMENT

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined contribution pension plan

The Township of Lexington contributes to the basic Michigan Township Association Pension Plan which is a defined contribution multi-employer pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions and forfeitures of other participant's benefits that may be allocated to such participant's account.

Contributions made by the Township are 100% vested after twenty (20)

Lexington Township
Notes to Financial Statements
June 30, 2007

months of service. The Township is required to contribute ten percent (10%) of an eligible employee's wages paid. An employee is eligible if he or she is over eighteen (18) years old. Employees are eligible for retirement benefits at age sixty-five (65) and may elect early retirement at age fifty-five (55).

The Township's current year covered payroll and its total current year payroll for all employees amounted to \$ 34,421 and \$ 91,439, respectively.

During the year the Township's required and actual contributions amounted to \$ 5,720. This amount includes administration fees.

Lexington Township
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Revenues				
Taxes				
Property taxes	\$ 94,900	\$ 94,900	\$ 100,506	\$ 5,606
Other taxes	29,150	29,150	14,448	(14,702)
Penalties and interest	4,140	4,140	9,898	5,758
Administration fee	33,400	33,400	34,890	1,490
State revenue sharing	181,156	181,156	177,160	(3,996)
State grants	-	-	11,300	11,300
Charges for services	30,580	30,580	40,409	9,829
Interest income	4,000	4,000	6,067	2,067
Other revenue	500	500	2,385	1,885
Transfer in	800	800	880	80
Total revenues	<u>378,626</u>	<u>378,626</u>	<u>397,943</u>	<u>19,317</u>
Expenditures				
General government				
Township board	67,972	67,972	73,487	5,515
Supervisor	7,643	7,643	6,453	(1,190)
Clerk	41,221	41,221	55,093	13,872
Treasurer	31,505	31,505	28,228	(3,277)
Assessor	40,350	40,350	27,464	(12,886)
Elections	7,450	7,450	5,814	(1,636)
Buildings and grounds	7,685	7,685	7,685	-
Cemetery	2,000	2,000	1,955	(45)
Total general government	<u>205,826</u>	<u>205,826</u>	<u>206,179</u>	<u>353</u>

Lexington Township
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Public safety				
Police	-	-	880	880
Fire department	36,600	36,600	39,596	2,996
Total public safety	36,600	36,600	40,476	3,876
Public works				
Highways, streets and bridges	56,850	56,850	25,931	(30,919)
Street lighting	2,500	2,500	2,552	52
Total public works	59,350	59,350	28,483	(30,867)
Health and welfare				
Ambulance	28,088	28,088	19,416	(8,672)
Community and economic development				
Planning	4,320	4,320	3,830	(490)
Zoning	14,673	14,673	11,262	(3,411)
Total community and economic development	18,993	18,993	15,092	(3,901)
Debt service				
Principal retirement	4,045	4,045	1,600	(2,445)
Interest and fiscal charges	-	-	1,680	1,680
Total debt service	4,045	4,045	3,280	(765)
Total expenditures	352,902	352,902	312,926	(39,976)
Excess of revenues over expenditures	25,724	25,724	85,017	59,293
Fund balance - beginning of year	178,132	178,132	178,132	-
Fund balance - end of year	\$ 203,856	\$ 203,856	\$ 263,149	\$ 59,293

Lexington Township
Other Supplemental Information
Budgetary Comparison Schedule
Debt Service Fund
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Charges for services	\$ 3,942	\$ 3,942	\$ 6,601	\$ 2,659
Interest income	10,783	10,783	14,718	3,935
Other revenue	6,808	6,808	6,315	(493)
Total revenues	<u>21,533</u>	<u>21,533</u>	<u>27,634</u>	<u>6,101</u>
Expenditures				
Debt service				
Principal retirement	15,700	15,700	15,700	-
Interest and fiscal charges	<u>11,697</u>	<u>11,697</u>	<u>11,696</u>	<u>(1)</u>
Total expenditures	<u>27,397</u>	<u>27,397</u>	<u>27,396</u>	<u>(1)</u>
Excess of revenues (deficiency) over expenditures	<u>(5,864)</u>	<u>(5,864)</u>	<u>238</u>	<u>6,102</u>
Fund balance - beginning of year	<u>138,389</u>	<u>138,389</u>	<u>138,389</u>	<u>-</u>
Fund balance - end of year	<u>\$ 132,525</u>	<u>\$ 132,525</u>	<u>\$ 138,627</u>	<u>\$ 6,102</u>

Lexington Township
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

	<u>Liquor Law Enforcement</u>
Assets	
Cash and cash equivalents	\$ <u>25</u>
Fund Balances	
Undesignated	\$ <u>25</u>

Lexington Township
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2007

	<u>Liquor Law Enforcement</u>
Revenues	
Other state grants	\$ 880
Interest income	<u>1</u>
Total revenues	<u>881</u>
Other financing sources (uses)	
Transfers out	<u>(880)</u>
Net change in fund balance	<u>1</u>
Fund balance - beginning of year	<u>24</u>
Fund balance - end of year	<u><u>\$ 25</u></u>



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October 15, 2007

To the Management and
Board of Directors of
Lexington Township

In planning and performing our audit of the financial statements of Lexington Township as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Lexington Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, there were no significant deficiencies or material weaknesses noted.

We have also noted various items we feel could improve your internal controls or operating efficiencies. These items are not considered significant deficiencies or material weaknesses but are presented for your consideration.

Control Environment

We noted that the Treasurer was granted permission to update names and signatures on existing financial institutions of the Township. We want to reinforce that the Board should be approving changes prior to them being made by the Treasurer and these items should be recorded in the minutes.

Property Taxes/Special Assessments

We noted a balance remaining in the tax account at the end of the year. Since the tax account is a fiduciary fund, taxes you collect should be paid out to the corresponding entities in a timely manner. A reconciliation should be prepared to ensure that all taxes collected have been paid out as required and that any discrepancies are investigated and properly accounted for on a timely basis.

This communication is intended solely for the information and use of management, board of directors, others within the organization, and Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Yeo & Yeo, P.C.

Marlette, Michigan